GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	SB0168	**Title:**	Transfer public employee accrued leave into post-retirement health care account
Primary Sponsor:	Jent, Larry	**Status:**	As Introduced

- ☑ Significant Local Gov Impact
- ☐ Needs to be included in HB 2
- ☐ Technical Concerns
- ☐ Included in the Executive Budget
- ☐ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:				
Other	$5,092	$5,646	$5,898	$5,898
Revenue:				
Other	$17,823	$19,761	$20,642	$20,642
Net Impact-General Fund Balance	$0	$0	$0	$0

Description of Fiscal Impact:
Passage of SB 168 will result in minor additional net revenues to apply toward the outstanding startup and ongoing internal operating costs of the VEBA program.

FISCAL ANALYSIS

Assumptions:

1. Public employees in the state of Montana have the opportunity to form an employee welfare benefit trust group, hereinafter referred to as a Group, through an annual election process. SB 168 adds flexibility to the VEBA program by allowing members of a common association to vote on the type of employer contributions to be invested in their accounts; from unused sick or vacation leave credits, or both. The goal of SB 168 is to increase participation in the state's VEBA plan, thereby improving the plan's cash flow.
2. To be conservative, the assumption has been made that the number and mix of members currently enrolled in Groups will remain constant. The ability to have a larger share of accumulated unused leave converted to a VEBA may attract more members. In particular, removing the mandatory cash-out of unused sick leave balances in 2-18-1311(2)(b), MCA, may encourage and even permit expanded VEBA participation,

especially by the school districts who were negatively impacted by this section of the law in absence of SB 168.

3. The state accounting and human resource system (SABHRS) was queried to obtain a list of all state employees in an existing VEBA along with the total payout value of their accumulated vacation leave credits and age. 1,270 active employees are currently participating in a VEBA and as of January 19, 2007, had total accumulated vacation leave credits of $8,690,443. The average value of vacation leave credits per participant computes to $6,843. It was also assumed that all VEBA members age 65 and over would terminate each year. There are 42 VEBA members age 65 and over and the average value of vacation leave credits for these individuals is $6,635. Again, the assumption was made that these numbers will remain constant through time.
4. The state does not capture data on participation in the VEBA by employees of other, non-state public institutions. For purposes of this fiscal note it is assumed that the non-state employees mirror the state employees with respect to the percentage of vacation leave credits accumulated as compared to sick leave credits; the average cash-out value of vacation leave credits; and their Medicare/Non-Medicare status at the time of termination. The sick and annual leave balances of state VEBA participants who terminated during FY 2005 and FY 2006 was identified. In both years the dollar amount of vacation leave paid to employees upon termination was 40% greater than the sick leave credits contributed to the VEBA accounts. The only data available for non-state public employees was the total sick leave contributions each employer transferred to the VEBA administrator. The value of their contributions for years 2005 and 2006 were averaged and inflated 40% to come up with an approximation of how much vacation leave would be available for investing by the other public institutions. This calculation resulted in contributions of vacation leave payouts of $353,559 annually. From the state government's population it is estimated that 3.3% (42/1,270) of the VEBA participants are Medicare eligible. This same percent and average value of vacation leave attributable to each participant, was used to estimate the number of VEBA participants in the non-state public institutions. Therefore, it was estimated that the combined non-state public institutions average 51.65 participants; 1.65 of whom are Medicare eligible.
5. For the total State of Montana VEBA plan (combined counts from assumptions #3 and #4), it is assumed that 1,278 participants are under age 65 and have an average value of vacation leave credits of $6,843 per participant and 44 (rounded) participants are Medicare eligible with $6,635 in vacation credits.
6. The average attrition rate in state government is 12% annually. It was assumed that this same attrition rate would apply to the total count of employees in VEBA groups. For purposes of this fiscal note it was assumed that all VEBA members age 65 and above would terminate annually. 12% of the 1,322 group employees is about 159 terminations per year. All 44 Medicare eligible employees are considered part of these 159 terminations, and the remaining 115 participants are non-Medicare eligible.
7. For purposes of this fiscal note, it is assumed that terminating VEBA participants utilize their investments beginning in the year they terminate for insurance premiums on health plans similar to the State of Montana's plan and $500 out-of-pocket annual medical care costs until their investment is exhausted. The insurance premium rate for terminated employees less than 65 years old is assumed to remain constant at $526/month, which is the non-Medicare retiree rate for plan year 2007. The premium rate for Medicare eligible retirees is $168/month (assume Traditional Plan). Based on average investments of $6,843, a member less than 65 years old will exhaust his/her investment within the first year after terminating (12 months x $526/month + $500 annual out-of-pocket = $6,812 in costs to cover with $6,843 in investments). A Medicare eligible VEBA member will exhaust his/her investment over 2.43 years (12 months x $186/month + $500 annual out of pocket = $2,732 annually to cover with $6,635 in investments).

8. Investment dollars from conversion of employee's unused vacation leave is projected as follows.

Assumes average mid-year investment balances.						
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
FY 2008-NonMed	$786,945					
FY 2008-Medicare	$231,539	$110,738	$50,336			
FY 2009-NonMed		$786,945				
FY 2009-Medicare		$231,539	$110,738	$50,336		
FY 2010-NonMed			$786,945			
FY 2010-Medicare			$231,539	$110,738	$50,336	
FY 2011-NonMed				$786,945		
FY 2011-Medicare				$231,539	$110,738	$50,336
FY 2012-NonMed					$786,945	
FY 2012-Medicare					$231,539	$110,738
FY 2013-NonMed						$786,945
FY 2013-Medicare						$231,539
Total Annual Dollars	$1,018,484	$1,129,223	$1,179,559	$1,179,559	$1,179,559	$1,179,559

9. Investors are charged fees, for the management of their VEBA assets, of $5/month and 1.75% of their asset balance. Third-party administration, record-keeping, investment, and claims adjudication fees are taken off the top from fee revenues received. It is assumed that fees structured on a per member per month bases will not change from what is currently collected because the number of participants is estimated to remain constant (members with converted sick leave dollars in their accounts will now also have vacation leave dollars but will only be charged one per member per month fee for their accounts). Only fees based on a percentage of assets will differ with the addition of vacation leave credits to the VEBA investments. Revenue to the state plan will be increased only by 1.75% fee on total investment balances from converted vacation leave credits. Assuming the additional investments shown in assumption #8, the VEBA plan can expect additional revenues of $17,823, $19,761, and $20,642 in FY 2008, FY 2009, and each year thereafter, respectively. The state plan pays its VEBA administrator asset-based fees of 10 Bpts, and its educational contractor 40 Bpts. The cost to the plan for these fees is $5,092, $5,646, and $5,898, in FY 2008, FY 2009, and each year thereafter, respectively. The net of the additional asset-based fee revenues over the fees paid to the contractors will be retained in the state's VEBA plan to cover other operating costs and eventually repay start-up costs for the plan. The projected net income from additional investments due to converted vacation leave credits is $12,731 in FY 2008, $14,115 in FY 2009, and $14,744 in each year thereafter.
10. The Central Payroll unit will need to establish new payroll codes on SABHRS to accommodate each VEBA group's election to have only sick leave credits converted; only vacation leave credits converted; or both sick and vacation leave credits converted into VEBA contributions. The additional costs related to these system changes, internal management of the VEBA, and internal record-keeping duties are anticipated to be minimal and can be absorbed into the normal operations of the department.

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Fiscal Impact:				
Expenditures:				
Operating Expenses	$5,092	$5,646	$5,898	$5,898
Funding of Expenditures:				
Other	$5,092	$5,646	$5,898	$5,898
Revenues:				
Other	$17,823	$19,761	$20,642	$20,642
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
Other	$12,731	$14,115	$14,744	$14,744

Effect on County or Other Local Revenues or Expenditures:

1. Passage of SB 168 will make it possible for school districts around Montana to participate in the VEBA program without jeopardizing the calculation of employees' pension payments.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*